REPORT OF THE EXECUTIVE OFFICER
State Allocation Board Meeting March 28, 2001

BRIDGE FINANCING POLICY

PURPOSE OF REPORT

To present a bridge financing policy for financial hardship school districts.

BACKGROUND

Under the current priority point system, many new construction projects that would have been funded based on date order of processing will not receive funding until such time as the priority points for the projects are high enough in comparison with other projects included within a given funding quarter. Additionally, funding is currently unavailable for modernization projects. As a result, the State Allocation Board (SAB) requested the OPSC to consider a policy that would allow bridge financing of projects when the SAB was unable to fund the project.

During these times, non-financial hardship districts are able to move forward with its projects since they are funding 50 percent of the project costs with their own funds. If the districts 50 percent share is insufficient, it has the ability to borrow money and seek State reimbursement at a later date with no penalty. However, financial hardship school districts have special concerns when their projects are not funded due to insufficient priority points since they have limited options for moving ahead with the project.

The School Facility Program currently has no interim financing regulations; however, the SAB previously authorized an interim financing or “bridge financing” program under the Lease-Purchase Program in which the SAB reimbursed the school district for the costs of the project plus interest and loan issuance costs. This program was eventually discontinued due to the high cost of interest and loan issuance costs and concerns that school districts would incur excessive debt and be unable to make the interest and principal payments in the event that state funding was not provided.

In addition, when the modernization funds available from the first funding cycle from Proposition 1A were exhausted, the State Treasurer’s Office and the SAB authorized the “Smart Bond” program. This program was available for modernization projects that had received unfunded approvals and were awaiting funding from the second funding cycle from Proposition 1A. This program of low interest loans was only made available to districts with unfunded approvals that were most likely to receive funding because there was a guaranteed funding source, the second funding cycle from Proposition 1A. This program was discontinued when the second funding cycle became available.

DESCRIPTION

A proposed bridge financing policy was discussed several times at the SAB Implementation Committee and the following summarizes the general consensus of the proposed policy:

- Financial hardship districts that have submitted projects to the Office of Public School Construction should be allowed to secure bridge financing for the value of a school project including loan issuance and capitalized interest costs and not have the value of these loans captured as district contribution when the state subsequently funds the project.
- No additional state funding will be provided for loan issuance and interest costs, nor will these costs be eligible project costs.

DESCRIPTION (cont.)

- Financial hardship school districts with developer fee revenue may be allowed to use this revenue as interim funding for the project until such time as the project is fully funded by the State.

The proposed regulations to implement the provisions of this bridge financing policy are included in the attachment and are ready for SAB approval.

STAFF COMMENTS

The OPSC is concerned that if this policy is adopted, some districts may believe that obtaining bridge financing implies that future state funding is assured. This is not the case. A district that uses bridge financing must accept the risk that future funding may not be available and it should enter into such an arrangement only if it can afford to pay the debt service on the loan.

Additionally, bridge financing may discourage districts from attempting a local bond issue as an alternative to funding the project, even if it currently has financial hardship status.

RECOMMENDATIONS

1. Adopt Regulation Section 1859.81.2 as shown on the Attachment and begin the regulatory adoption process.

2. Amend Regulation Section 1859.2 as shown on the Attachment to include the following definition and begin the regulatory process.

3. Until the Regulations identified in items 1 and 2 become law, do not consider the loan proceeds identified in these regulations as a district contribution pursuant to Section 1859.81(a) as long as the district submits a school board resolution acknowledging it recognizes there is no guarantee of future state funding for the project for which bridge financing is utilized.

ATTACHMENT

BRIDGE FINANCING PROPOSED REGULATIONS
State Allocation Board Meeting, March 28, 2001

Amend Regulation Section 1859.2 to include the following definition as follows:

Section 1859.2. Definitions

c) "Bridge Financing" means a certificate of participation, lease-purchase agreement, or other financing arrangement entered into with a party other than the applicable district for the purpose of financing eligible project costs authorized in Education Code Section 17072.35 for New Construction Grants or Education Code Section 17074.25 for Modernization Grants.

Note: Authority cited: Section 17070.35, Education Code.

Reference: Section 17075.10, Education Code.

Adopt Regulation Section 1859.81.2 as follows:

Section 1859.81.2. Bridge Financing.

A district that meets the requirements contained in Section 1859.81 shall be subject to all of the following:

(a) Proceeds from bridge financing entered into after an Approved Application is received by the OPSC will not be considered available as a district contribution to the applicable project or subsequent projects pursuant to Section 1859.81(a) except to the extent that such proceeds exceed the sum of:
    (1) The State's portion of the applicable project and the hardship funding placed on an Unfunded List; plus
    (2) The amount of such proceeds used to finance costs of issuance, a debt service reserve fund, and capitalized interest related to such bridge financing.
(b) A district seeking bridge financing must provide the OPSC with a school board resolution acknowledging the district recognizes there is no guarantee of future state funding for the project for which the loan proceeds will be used.
(c) Developer fees collected by a district after an Approved Application is received by the OPSC may be used to pay eligible project costs on an interim basis. The developer fee revenue will be considered available as a district contribution pursuant to Section 1859.81(a) at the time the project is fully funded by the State with the exception of amounts utilized to pay for interim housing costs to provide facilities for the currently unhoused pupils of the district or HSAA at the time of application submittal. The amount of interim housing costs shall be calculated as follows:
    (1) Determine the number of currently unhoused pupils and divide that number by 25 for every elementary pupil and 27 for every secondary pupil rounded up to the nearest whole number; and.
    (2) Multiply the quotient determined in (1) by $461 for each month from the date the approved application is submitted to the OPSC until 18 months after the fund release is made for the project. The amount shown shall be adjusted annually in a manner consistent with Section 1859.71.
(d) Interest, issuance costs and any debt service fund associated with bridge financing are not eligible project costs pursuant to Education code Sections 17072.35 and 17074.25.

Note: Authority cited: Section 17070.35, Education Code.

Reference: Section 17075.10, Education Code.